

PD-ABI-427

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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D. C. 20523

HONDURAS

**PROJECT PAPER**

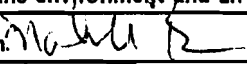
EXPORT DEVELOPMENT AND SERVICES  
AMENDMENT NUMBER 2

**BEST AVAILABLE DOCUMENT**


AID/LAC/P-854  
CR-189


PROJECT NUMBER: 522-0207

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<b>Agency for International Development</b> <b>PROJECT DATA SHEET</b> Amendment #2				1. Transaction Code [C]      A = Add C = Change D = Delete		Document Code 2			
2. Country/Entity Honduras				3. Project Number 522-0207					
4. Bureau/Office LAC		[05]		5. Project Title Export Development and Services					
6. Project Assistance Completion Date (PACD)  <div style="display: flex; justify-content: space-around;"> <span>MM</span><span>DD</span><span>YY</span> </div> <div style="display: flex; justify-content: space-around;"> <span>08</span><span>29</span><span>94</span> </div>				7. Estimated Date of Obligation N/A  (Under "B" below, enter 1,2,3, or 4)  <div style="display: flex; justify-content: space-between;"> <span>A. Initial FY   8   4</span> <span>B. Quarter [4]</span> <span>C. Final FY     94</span> </div>					
8. Costs \$000 or Equivalent \$ 1 =									
A. Funding Source		First FY 94		Life of Project					
		B. FX	C. L/C	D. Total	E. FX	F. L/C	G. TOTAL		
AID Appropriated Total									
(Grant)		( 500 )	( 50 )	( 550 )	( 12,778 )	( 2,503 )	( 15,281 )		
(Loan)		(8,500 )	( 1,000 )	( 9,500 )	( 10,513 )	( 2,438 )	( 12,951 )		
Other	1.								
U.S.	2.								
Host Country			1,500	1,500	- 0 -	40,618	40,618		
Other Donor(s)									
TOTALS		9,000	2,550	11,550	23,291	45,559	68,850		
9. Schedule of AID Funding (\$000)									
A. Appropriation	B. Primary Purpose	C. Primary Tech. Code		D. Obligations to Date		E. Amount Approved This Action		F. Life of Project	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) SDA				5,461	7,150	1,400	-	6,861	7,150
(2) ARDN				3,870	5,801	1,500	-	5,370	5,801
(3) ES				1,550				1,550	
(4)									
TOTALS				10,881	12,951	2,900	-	13,781	12,951
10. Secondary Technical Codes (maximum 6 codes of 3 positions each)								11. Secondary Purpose Code	
12. Special Concerns Codes (maximum 7 codes of 4 positions each)									
A. Code									
B. Amount									
13. Project Purpose (maximum 480 characters)  To increase non-traditional exports									
14. Schedule Evaluations <div style="display: flex; justify-content: space-around;"> <span>MM YY</span><span>MM YY</span> </div> Interim   0   3     8   8      Final   0   6     9   4						15. Source/Origin of Goods and Services  <div style="display: flex; justify-content: space-between;"> <span>[X] 000</span> <span>[X] 941</span> <span>[ ] Local</span> <span>[ ] Other (specify) _____</span> </div>			
16. Amendments/Nature of Change Proposed (This is page 1 of a _____ page PP Amendment)  A series of studies and activities will be conducted to identify and begin complying with the likely requirements of a US-Honduras free-trade agreement in the areas of labor rights, the environment and an improved legal framework.									
Approved by		Signature Marshal D. Brown. 				DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION			
		Title: Director USAID/Honduras		Date Signed:					

ACTION MEMORANDUM FOR THE MISSION DIRECTOR

FROM: Scott Taylor, PSP 

THRU: Phil Hubbard, PSP 

SUBJ: Export Development and Services, Project No. 522-0207 -- FIDE Component;  
Approval of Eight-Month Work Program

DATE: March 2, 1994

**ACTION REQUESTED:** That you sign this Action Memorandum and the attached Project Implementation Letter (PIL) No. 151 of the subject project, thereby approving an eight-month work program and budget for FIDE during CY 1994. This Action Memorandum, together with the attached Project Data Sheet, serves as a Project Paper Supplement (PP Amendment No. 2).

**BACKGROUND:** The Export Development and Services (EDS) Project Agreement was signed on August 31, 1984. The purpose of the EDS project is to increase nontraditional exports. The goal of the project is to promote economic growth and employment through the development of nontraditional exports.

The EDS Project was amended on September 9, 1992, to continue activities of the Honduran Federation of Agricultural and Agro-Industrial Producers (FPX) and the Foundation for Investment and Development of Exports (FIDE), aimed at deepening Honduran nontraditional agricultural exports and increasing investment and production in export industries, respectively.

To date, FIDE has attracted 89 new investments and has helped to create nine export processing zones (EPZs). In terms of export development, FIDE has provided technical assistance to a total of 204 Honduran companies, of which approximately 133 are currently exporting. Recently, FIDE created a "think tank" to develop a private sector strategy for the new government, comprised of technical experts in the areas of wood products, tourism, labor relations, public services, industrial reconversion and housing. Finally, FIDE continues to play a lead role in addressing concerns regarding labor abuses in the maquila sector.

In view of Section 599 of the FY 1993 Foreign Operations Appropriations Act and initial guidance from USAID/W, as of October 1992, all funding for export processing zone development and support to FIDE's U.S.-based offices were curtailed. PIL No. 141 also required FIDE to obtain certifications from firms located in the U.S. stating that their interest in investment opportunities in Honduras would not be for the purpose of relocating any production facility at the expense of U.S. jobs and would not violate internationally

recognized workers' rights. Following final USAID/W guidance on Section 547 (previously 599) of the FY 1994 Foreign Operations Appropriations Act, all support to FIDE's investment promotion and export development activities was terminated as of December 31, 1993, with the exception of assistance the organization continues to provide to the Honduran Rehabilitation Association (AHR).

Following the success of FIDE's program to promote manufacturing investment and employment, there is now a need to reorient its work program to take into account attendant environmental problems and labor rights issues. The export-oriented assembly industries now employ an estimated 42,000 workers, of which over 70% are women, and employment is growing at about 20% per year. This growth is expected to result in a growing number of processes, the environmental impacts of which require careful management. The need to address labor rights and environmental control issues in all sectors of the economy has been highlighted by recent shifts in the international trade policy environment. Especially important in this regard are the "side agreements", concerned with labor rights and environmental protection, for which negotiations were linked to the confirmation of the NAFTA treaty in the US Congress.

The work plan described herein is premised on the need to ensure that the Honduran government and private sector understand, and are able to comply with, likely requirements to a free trade agreement with the U.S. Accession conditions (on labor issues and environmental norms) to a free trade agreement with the U.S. are likely to be "moving goalposts," with new entrants required to meet ever more demanding conditions.

## DISCUSSION:

The overall purpose of the Export Development and Services project is to increase nontraditional exports. The project's success in increasing nontraditional industrial exports, to which FIDE has made a significant contribution, has created a need to reorient the program to tackle the challenges which arise from this success. Specifically, FIDE must work to ensure adequate protection of workers' rights and to reduce the amount of environmental degradation generated by industry. FIDE's efforts will be guided by likely requirements to a Honduras-U.S. free trade agreement in these two areas.

Not all of these activities are new to FIDE's program. Last year, FIDE developed and, through the Honduran Council for Private Enterprise (COHEP), presented to the new GOH a private sector strategy covering several key sectors of the economy. FIDE has also been the principal force in improving dialogue between labor and management and in addressing labor abuses in the maquila sector. The program outlined below for CY 1994 builds on FIDE's accomplishments in these areas and contemplates new activities related to environmental protection. The medium-term objective of the labor rights and environmental protection components of the work program described below is entry of Honduras into a free trade agreement with the U.S.

The eight-month period covered by this work program is limited by the remaining life of the project. The time allotted is too short to allow Honduras' entry into a free trade agreement with the U.S. to be a realistic objective. However, it is possible to define a series of measurable efforts and results which should eventually contribute to the desired end. These are listed below and have been summarized in Attachment "A", Summary of Project Outputs.

The work program described below has three principal components: labor rights, environmental protection and improvement of Honduras' policy and legal framework. This eight-month work program has budgeted L2,050,405 for salaries, publicity and local technical assistance and \$222,000 for external consultants, travel expenses and computer equipment (see Attachment "B", Summary Financial Plan).

## **1. Labor rights**

### *1.1 Modernization of the Labor Code*

FIDE has an important role to play in strengthening and widening the focus of private sector input into negotiations related to the modernization of Honduras' labor code. During 1994, FIDE will analyze the probable requirements which Honduras will face on labor issues and ensure that all parties to the discussion on the modernization of the labor code are aware of the norms which are likely to be acceptable under a future U.S.-Honduras free trade agreement. This task will be assigned FIDE's Executive President, who will contract required technical assistance to support this effort. The following consultancies are envisioned:

1. A study of probable U.S.-Honduras free trade agreement entry requirements for Honduras, related to labor issues, to be prepared by consultants based in either Mexico or the U.S. The report will be presented at seminars in San Pedro Sula and in Tegucigalpa, with invitees from government, trade unions and the private sector.
2. Position papers for consideration by those persons/institutions involved in the process of modernization of the labor code, reflecting entry requirements for a U.S.-Honduras free trade agreement.
3. A study comparing the impacts of different types of labor regimes on the growth and distribution of output and income. The study will be based on international comparisons of labor codes and practices, and will seek to evaluate which countries have been most successful in combining the guarantee of worker rights with economic growth, and with growing worker incomes. The results of the study will be published in a pamphlet and presented in seminars in Tegucigalpa and San Pedro Sula.

### *1.2 Labor Ministry Strengthened*

During 1994, FIDE will undertake the following activities to help modernize and strengthen the Labor Ministry:

1. FIDE's Information Division will provide technical support to the Ministry to establish a basic microcomputer system for labor market data. As part of this support, FIDE will commission a study of suitable labor market indicators for inclusion in the Ministry's database and supply technical support to establish data collection systems.
2. There is at present no reliable information available on complaints about Labor Code abuses and their resolution. FIDE will help the Labor Ministry to develop a computerized system for installation in principal offices (San Pedro Sula and Tegucigalpa). The system will register workers' complaints, track the follow up by the Inspector General's Office, automatically feed unresolved complaints to a higher level, and provide periodic public reports on workers' rights implementation. This work will be carried out jointly by the Information Division and a private consultant.
3. FIDE will develop a funding proposal to secure long-term support (possibly from the International Labor Organization -- ILO) for the Labor Ministry in the areas of computer resources, statistical analysis, and labor market analysis. This proposal will be developed by a private consultant contracted by FIDE who will consider the option of in-house capacity in the Labor Ministry and the alternative of a long-term contract with a private company to provide the necessary services.
4. FIDE will provide support to the Labor Ministry in developing an effective arbitration and conciliation service. As a first step, FIDE will commission a study comparing models of arbitration and conciliation used in other countries, indicating which have been most successful, and why. This work will be carried out by a private consultant under the supervision of FIDE's Executive President.

### *1.3 Labor Rights in the Maquila Sector*

FIDE has an important role to play in helping to define the limits of what is likely to be acceptable in a free trade agreement with the U.S. with regard to labor conditions (including organization rights) in the EPZs and in the maquila sector generally. FIDE's position of influence with investors in the EPZs will enable it to influence both park owners and their clients on these matters. FIDE's work program for 1994 on labor rights in the maquila sector includes the following actions:

1. Continued participation in tripartite discussion between employers, unions and the Labor Ministry to identify and to resolve concrete problems which arise in the maquila sector. FIDE's input to the tripartite discussions will be designed to form a new consensus on implementation of labor rights, in view of the extraordinarily competitive international market

for investment in the maquila sector, on the one hand, and the likely attitudes and future requirements of the U.S. as expressed in the NAFTA side agreement on labor, on the other.

2. FIDE will develop an initiative to create a regulatory body to oversee labor issues in the maquila sector, especially in stand-alone plants covered either by the Regimen de Importación Temporal (RIT) legislation or by extensions of the free trade zone. To pursue this initiative, FIDE will contract a private consultant who will report to a Consultancy Manager contracted by FIDE to oversee all local consultancies to be carried out under this eight-month effort.

3. FIDE, through its Information Division, will organize a program of publications, discussions and seminars directed towards EPZ owners and maquila factory owners, to suggest constructive responses to the problem of labor representation, consistent both with the existing framework of Honduran law and probable U.S.-Honduras free trade entry requirements.

#### *1.4 Labor Market Analysis*

FIDE has been a leading organization in the development of policy-oriented labor market analysis in Honduras, focussing on the identification of problems and the articulation of solutions by both private and public sector leaders. During 1994, this work will continue under the responsibility of FIDE's Executive President, who may appoint consultants, as necessary, to support this effort.

1. FIDE will continue to coordinate with CADERH and USAID to identify labor market bottlenecks and propose training initiatives designed to resolve them. FIDE officials will support the Workforce Assessment for the Wood Products, Tourism, Industrial Maintenance and Residential Construction sectors, commissioned by USAID and programmed for execution during the first quarter of 1994. It will ensure that the conclusions of the study on the first three areas, which are priority areas within FIDE's overall strategy, are made known to leaders in the sectors. It will also make sure that public sector training bodies (especially INFOP) are made aware of the training needs identified by the studies. In addition, FIDE will commission a consultancy on options for the reform of INFOP.

2. FIDE will obtain copies of other labor market studies undertaken by USAID and other agencies, feeding their conclusions into its sectoral analyses. In particular, it will monitor and consider the findings of the study on relative costs of female and male labor in Latin America, currently being executed by Coopers Lybrand for USAID.

## **2. Environmental protection**

There are a number of areas where FIDE can play an important role in environmental protection: input into the development of implementing regulations and norms of the Environment Law; education of the private sector on environmental problems related to

industry; and promotion of private initiatives to establish "environmental industries" (especially in sewage treatment).

### *2.1 Regulation of the Environment Law*

The Environment Ministry is in the process of establishing implementation regulations and norms for industrial contamination under the Environment Law. FIDE will participate in this process, to ensure that the Ministry is fully informed of the likely requirements of a future free trade agreement with the U.S.

FIDE will develop materials on the probable environmental policy requirements which will condition Honduras' entry to a free trade agreement with the U.S., and will input this information into the process of "concertación" for the implementation regulations and norms for the 1993 Environment Law. In order to do this, FIDE will contract expert consultant support in the U.S. and Honduras. FIDE will prepare a report (in Spanish) on the likely environmental requirements for free trade status by Honduras, on the basis of Mexico's experience and interviews with key figures close to the debates on NAFTA. This report will be presented in seminars in San Pedro Sula and Tegucigalpa to which business, environmentalist and governmental (Secretario del Ambiente -- SEDA) representatives will be invited.

The consultants, to be contracted in Honduras, will supply FIDE with regular reports on the process of regulation of the Environmental Law and help FIDE draft inputs for debates on the implementation regulations and norms. This effort will be closely coordinated with the USAID/Honduras Environmental Officer.

### *2.2 Environmental Education in the Private Sector: FIDE's Role*

Although there is growing awareness of the necessity and inevitability of stronger environmental controls on industry, the private sector is still not fully convinced. In this setting, there is an important "consciousness raising" role for FIDE, in coordination with environmental organizations.

FIDE will organize seminars for industry, both in San Pedro Sula and Tegucigalpa, to present the results of the study commissioned on probable environmental conditions required for entry into a U.S.-Honduras free trade agreement. These seminars will inform industry of the process of regulation of the Environment Law and feed back industrial opinions to the SEDA. FIDE will also contract the services of a local environmental foundation to develop a general environmental-education package aimed at industrialists.

### *2.3 Private Initiatives to Tackle Contamination*

The environmental problems of the Sula Valley represent an opportunity for the private sector since the business of cleaning up industry can be profitable, as well as necessary. FIDE will



act as an entrepreneurial promoter, working to put together a coalition of investors interested in tackling the problems of industrial contamination on a commercial basis, with the support of official development assistance.

FIDE will monitor closely the Cortés Chamber of Commerce and Industry (CCIC)-led industrial effluents study (funded by USAID under the 522-0363 Project), and will work to pull together a group of private investors ready to invest in the resolution of the problems identified. Once the results of the CCIC study have been published, this group will begin work on detailed feasibility studies. FIDE will explore funding possibilities with international financial institutions.

### **3. Improvements in the Legal and Policy Framework**

During 1994, FIDE will maintain the "Think Tank" -- public policies and issues -- function established within it in 1993, continuing to work with consultants from the U.S., Honduras, Mexico and other Latin American countries to ensure that the policy formulation process is well informed. To this end, FIDE will contract consultants to work on particular sectoral problems and organize seminars and publications to disseminate results of its work. These studies will be practical rather than academic in nature, and will be designed to provide resources to Honduran companies to make them more effective, both in domestic and external markets. Among the studies programmed are the following:

1. Strategies to respond to challenges to industry from falling protective tariffs (details on the tariff schedules as they are at present and how they will change under existing agreements; examples of successful responses of other economies to reduced protection).
2. Marketing in an open economy (product and service quality, price competitiveness, sources of commercial information, identifying and anticipating future trends in export markets).
3. The importance of transport systems in sales strategies (comparisons of alternative options for road, sea and air transport, within Central America, the U.S. and other overseas markets).
4. Modern concepts in business administration (total quality, "just in time" inventory management, adapting product design to consumer preferences; employee and staff training; using university-based resources in business; production and process norms; etc.)
5. The new legal framework for trade arising from regional economic integration, entry to GATT and other commercial treaties.

Finally, FIDE's program has focused on helping to create a sound investment climate and improve Honduras' image abroad. In this sense, FIDE was engaged in discussions and lobbied for passage of new export promotion and intellectual property rights (IPR) legislation.

Under this eight-month effort, FIDE will continue to support the general framework of Honduras' economic adjustment program initiated under the Callejas Administration. Problem areas already identified are the need to close loopholes in export promotion legislation and promote full implementation of the new Investment and IPR laws. As part of this effort, FIDE will support the creation of the Office of Copyrights within the Ministry of Economy, the office charged with administration and implementation of these laws. FIDE's Information Division will provide technical support to the Ministry to establish a basic microcomputer system required to improve performance and ensure that actions receive adequate follow-up.

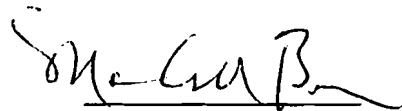
In undertaking activities in the areas of workers' rights, the environment and improving Honduras' policy and legal framework, FIDE will contribute to the modernization of the labor code and strengthening the implementation of labor and environmental laws. The labor rights, environmental protection and policy/legal framework agenda addressed by the FIDE work program is directly in line with the new Mission Strategic Objective No. 1: Enhanced Economic Participation and Increased Incomes of the Poor, outlined in the FY 1995-1996 Action Plan. The work program will strengthen the private sector's capacity to respond to a liberalized trade environment and will help to "fine tune" the policy framework.

#### **4. Assistance to the Honduran Rehabilitation Association (AHR)**

Under the Central American Survivors Assistance (CASA) Project (No. 522-0380), the Mission has provided orthotic and prosthetic services to survivors of the civil war in Nicaragua. In addition to providing surgical care to war victims, the project has helped to foster the creation of a local rehabilitation organization -- the *Asociación Hondureña de Rehabilitación* (AHR). In line with its export development objective, FIDE initiated assistance to AHR last year to help the Association reach its self-sufficiency goal through increased profits and sales of the prosthetic and orthotic devices it produces for export. Thus far, FIDE has contracted the services of a local accounting firm, Tovar and Associates, which has installed a computerized cost-accounting system that will enable AHR to properly price its products. Funds have been budgeted under this eight-month work program to permit FIDE to fully establish this cost-accounting system and to provide AHR with badly needed marketing research.

**RECOMMENDATION:** That you approve an eight-month work program and budget for FIDE including the protection of workers' rights, the environment, improving Honduras' legal framework and assistance to AHR by signing in the space provided below and by signing the attached PIL No. 151 of the subject project.

APPROVED:



DISAPPROVED:

\_\_\_\_\_

DATE:

\_\_\_\_\_

**Major Outputs for FIDE's Eight-Month Work Program:  
Workers' Rights, Environment and Legal Framework**

- 1. Publicity materials on environmental protection and labor rights.**
  - 1.1 A 15 minute color video in English and Spanish on labor rights and environmental protection in Honduras.
  - 1.2 Printed publicity material on labor rights, environmental protection, and Honduras' environmental management and protection requirements in natural resource based industries, including eco-tourism, wood products, mining and agro-industry:
    - four glossy full color brochures on labor rights and environment.
    - two full color posters on Honduras' commitment to labor rights and environmental protection.
    - six leaflets on environmental protection in natural-resource-based industries.
  - 1.3 Ten pamphlets containing the results of consultancy studies.
- 2. Seminars and conferences**
  - 2.1 Five seminars/conferences on the themes identified in the work plan.
- 3. Consultancies**
  - 3.1 A report on requirements for Honduras' accession to a free-trade agreement with the U.S.
  - 3.2 Establishment of a computerized system to register and track labor complaints at the Ministry of Labor.
  - 3.3 Establishment of a computerized system at the Ministry of Economy to help track and implement the new IPR law.
  - 3.4 Establishment of a computerized cost-accounting system at the Honduran Rehabilitation Association.

SUMMARY FINANCIAL PLAN		
Element/Elemento -- Line Item/Renglon	Lempiras	US\$
<b>05. WORKERS' RIGHTS/ENVIRONMENT/POLICY/LEGAL FRAMEWORK/AHR (DERECHOS LABORALES/AMBIENTE/MARCO POLITICO/LEGAL/AHR)</b>		
<b>1. Salaries and Benefits (Sueldos y Bonificaciones)</b>		
1.1 Presidency (Presidencia)	277,593	0
1.2 Operations Division (Division de Operaciones)	180,012	0
1.3 Information Division (Division de Informacion)	180,800	0
Sub-Total	638,405	0
<b>2. Publicity (Publicidad)</b>		
2.1 Printed Material (Material Impreso)	200,000	0
2.2 Video on Labor and Environment (Video sobre Trabajo y Medio Ambiente)	100,000	0
2.3 Seminars and Conferences (Seminarios y Conferencias)	100,000	0
Sub-Total	400,000	0
<b>3. Technical Assistance (Asistencia Tecnica)</b>		
3.1 Local Consultants (Consultorias Locales)		
3.1.1 Consultancy Manager (Gerente de Consultorias Locales)	120,000	0
3.1.2 Labor Advisor (Asesor en Asuntos Laborales)	96,000	0
3.1.3 Environmental Advisor (Asesor en Asuntos del Medio Ambiente)	96,000	0
3.1.4 Assistance to Honduran Rehabilitation Association (Asistencia a la Asociacion Hondurena de Rehabilitacion)	200,000	0
3.1.5 Other Local Consultants (Otros Consultores Locales)	500,000	0
3.2 External Consultants (Consultores Externos)		
3.2.1 Free Trade and Labor (Libre Comercio y Trabajo)	0	15,000
3.2.2 Free Trade and Environment (Libre Comercio y Medio Ambiente)	0	15,000
3.2.3 Other External Consultants (Otros Consultores Externos)	0	150,000
Sub-Total	1,012,000	180,000
<b>4. Travel Expenses (Gastos de Viaje)</b>		
4.1 Local/International Travel (Viajes locales e Internacionales)	0	30,000
Sub-Total	0	30,000
<b>5. Equipment (Equipo)</b>		
5.1 Computer Hardware/Software (Equipo de Computo)	0	12,000
Sub-Total	0	12,000
<b>TOTALS</b>	<b>2,050,405</b>	<b>222,000</b>